ticable alternatives" (*id.* at 26a) that the manufacturers would have preferred to use.[1] In this, the court of appeals followed this Court's teaching in *Jefferson Parish Hospital District No. 2* v. *Hyde*, 466 U.S. 2 (1984), which held that "a tying arrangement cannot exist unless two separate product markets have been linked" (*id.* at 21) and that whether there are separate product markets turns on whether "there is a sufficient demand for the purchase of the [tied product] separate from the [tying product]" (*id.*). This Court further explained that "application of the per se rule focuses on the probability of anticompetitive consequences" (*id.* at 15-16) and that "there can be no adverse impact on competition," and thus no *per se* tying, if purchasers would not otherwise have bought the allegedly "tied" product from "another seller in the tied-product market" (*id.* at 16). It was thus entirely appropriate for the Federal Circuit to examine the record to determine whether there was a basis for the Commission to conclude that "disc manufacturers wished to use [substitutes for the allegedly nonessential patents] in making compact discs compliant with the Orange Book standards." Pet. App. 27a.

After reviewing the evidence relating to the four patents identified by the ITC as "nonessential," the Federal Circuit correctly concluded that the record could not support the necessary factual findings. Pet. App. 27a-30a. As to two of the patents, the court concluded there was no evidence of any commercially available alternative. *Id.* at 29a-30a. As to the other two, the court found evidence that might support a finding that there was an alternative, but no evidence to support a finding that there was any demand for the alternative from Philips' licensees, and certainly no evidence that

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[1] The Federal Circuit did, as petitioners emphasize (*e.g.*, Pet. 29), sustain the ITC's definition of the tying-product market and its finding of market power. Pet. App. 10a-11a; *see id.* at 64a-66a (ITC), 133a-151a (ALJ). Philips' challenges to those determinations and their legal significance were preserved and passed upon below, and would be available to Philips as grounds for defending the judgment below if this Court were to grant review.

any such demand had gone "unmet because of the coercive effect of Philips's inclusion of the [two allegedly nonessential] patents in its package licensing agreements." *Id.* at 28a-29a.

This conclusion—that the record could not support a finding that the package licenses had excluded competing alternatives to the patents the ITC identified as nonessential—was also an important basis for the court's rejection of the Commission's alternative analysis under the rule of reason. Pet. App. 33a ("Yet, as we have already held, the evidence did not show that including [the four allegedly nonessential] patents in the patent packages had a negative effect on commercially available technology."). The Federal Circuit's conclusion that the Commission's factual findings were not supported by substantial evidence is sufficient, by itself, to support the court's judgment remanding this case to the ITC. That fact-bound determination does not warrant review by this Court.

2. Ignoring the Federal Circuit's factual conclusions (and the central teachings of *Jefferson Parish*), petitioners argue principally (Pet. 2-3, 13, 15-20) that the decision below conflicts with this Court's decisions in *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131 (1948), and *United States* v. *Loew's, Inc.*, 371 U.S. 38 (1962). Petitioners read those cases to embrace a sweeping, abstract condemnation of any package license, without regard to the purposes of the restriction on tying. But petitioners misunderstand both this Court's cases and the decision below. The Federal Circuit considered *Paramount* and *Loew's* and correctly concluded that the arrangements addressed in those cases were very different from Philips' package licenses. Pet. App. 12a-16a.

In *Paramount*, film distributors conditioned a theater's right to exhibit certain copyrighted films on its agreement also to exhibit other films. 334 U.S. at 156-157. The Court reasoned that "[w]here a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other." *Id.* at 158. The practice thus

"add[ed] to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses," which "forbid[] the owner of a patent to condition its use on the purchase or use of patented or unpatented materials." *Id.* at 157-158. *Loew's* reaffirmed *Paramount*'s analysis in the context of block licensing of films for television exhibition. *See* 371 U.S. at 47-50.

The various copyrighted films involved in the block-booking cases were not, like the patents included in Philips' license packages, inputs used in the manufacture of a single consumer product. They were separate films, and there was separate demand for each of them. The block licenses thus functioned in effect like mandatory package sales of multiple, separate copyrighted "products." *See Loew's*, 371 U.S. at 48-50. Moreover, purchasers were forced either to exhibit the unwanted "tied" films, thus preventing them from showing competing films (*see Paramount*, 334 U.S. at 157), or at least to pay a material additional price for unwanted exhibition rights, thus concretely inhibiting them from acquiring competing films (*see Loew's*, 371 U.S. at 49 (a "substantial portion of the licensing fees represented the cost of the inferior films which the stations were required to accept")).[4] Those features made the block-booking arrangements very much like conventional tying cases, in which the purchaser is forced to use or pay for the tied product in a way that displaces other potential sellers in an established market for that product. *See* Pet. App. 14a-15a. The block licenses thus had the characteristic vice of an anticompetitive tie: They used the power of attractive films to aid unattractive films in their competition against potential substitutes.

As the court of appeals recognized (Pet. App. 12a-16a), Philips' package licenses are very different. They are designed to give manufacturers whatever rights held by the licensors the manufacturers might need to make CD-R or

[4] *See also Loew's*, 371 U.S. at 49 ("Television stations forced by appellants to take unwanted films were *denied access* to films marketed by other distributors . . . ." (emphasis added)).

CD-RW discs. All agree that a manufacturer that wants to make and sell Orange Book discs legally (rather than, like petitioners, simply pirating the underlying technology) needs licenses to use at least some of the patents included in the Philips packages. *See, e.g., id.* at 66a. The price for the packages is set by reference to "what it is worth to practice [the Orange Book] technology," not by trying to calculate "the marginal benefit provided by a license to each individual patent." *Id.* at 23a; *see, e.g., id.* at 21a. If the packages include some patents that, while potentially useful, are arguably (or even clearly) not "essential" to make Orange Book discs, the purpose is not to seek some sort of advantage in any separate market in which the nonessential patents might theoretically compete. It is to promote licensing and use of the licensors' core technology by seeking to assure licensees that they will have whatever rights they need and that they will not face later infringement claims from the licensors.

That procompetitive purpose, and the lack of any anticompetitive effect, of the Philips licenses is demonstrated by the two license features on which the Federal Circuit properly focused: The licenses do not require that a licensee either (i) use or (ii) pay anything extra for any "nonessential" patent. *See, e.g.*, Pet. App. 14a-22a.[5] Thus, unlike with

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[5] Petitioners periodically allude (Pet. 6, 19, 20, 27) to findings by the ALJ suggesting that when petitioners took out separate CD-R licenses from Sony and Taiyo-Yuden, the sum of their royalties under those licenses, plus what the ALJ thought should be due to Philips under a separate license, was less than the royalty for the worldwide pool license. For reasons Philips has explained elsewhere, including in briefing to the ITC on remand, that factual analysis is both deeply flawed and ultimately inconsequential. *See* Memorandum of Complainant U.S. Philips Corporation In Reply To Respondents' Submission of February 21, 2006, at 18-21 (April 18, 2006), public version filed April 27, 2006, *available at* http://edisweb.usitc.gov/edismirror/337-474/violation/252876/286397/25c/748294.pdf. For this Court's purposes, however, the only important point is that the Federal Circuit clearly based its decision on the stated factual premise that the licenses at issue charged no incremental price for the use of any "nonessential" patent. *See, e.g.*, Pet. App. 20a.

block-booking, there is no reason to suspect that Philips' licenses have any more effect on competition in any market for a "tied" technology than would be caused by giving that technology away for free, dedicating it to the public, or leaving the related patents out of the license packages but announcing a policy of not enforcing them against licensees. *See id.* at 16a-22a. The law is clear that giving a putatively "tied" product away for free—typically, as here, to promote sales of the "tying" product that the consumer is actually purchasing—is not anticompetitive tying under either the *per se* rule or the rule of reason. *See id.* at 19a (citing *Directory Sales Mgmt. Corp.* v. *Ohio Bell Tel. Co.*, 833 F.2d 606, 609-610 (6th Cir. 1987)); *Multistate Legal Studies, Inc.* v. *Harcourt Brace Jovanovich Legal & Prof'l Publ'ns, Inc.*, 63 F.3d 1540, 1546-1548 (10th Cir. 1995).

The Federal Circuit's reliance on salient differences between this case and the block-booking cases does not conflict with, purport to "overrule," or even seek to "limit[]" (Pet. 15) anything in *Paramount* or *Loew's*. Nor does the court's decision "effectively scuttle[] the *per se* rule." Pet. 19.

The decision emphasizes the specific characteristics of Philips' licenses. The contrary circumstances in *Paramount* and *Loew's* are not "minor factual difference[s]" (Pet. 16), but important background facts that illuminate (as petitioners make no attempt to do) the reasoning underlying this Court's decisions.[6] Because the decision below turns on the

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[6] In *Paramount*, the requirement that licensees exhibit unwanted films meant at a minimum that they lost opportunities to show competing films they might otherwise have acquired. That is why the arrangement was similar to an ordinary tying case (*see* 334 U.S. at 157), and this Court's holding rested squarely on that similarity (*id.* at 158). It is equally clear that the charging of substantial additional prices for tied films was an important factual predicate in *Loew's*. Indeed, the district court whose decision this Court affirmed refused to find several challenged contracts illegal precisely because in those instances the government offered no proof of significant "pricing differentials." *United States* v. *Loew's, Inc.*, 189 F. Supp. 373, 386 (S.D.N.Y. 1960); *see also Loew's*, 371 U.S. at 46 (observing that patent-product ties allowed patentee "to use his patent rights to *exact tribute* for other articles" (emphasis added)).

presence of these characteristics, it does not "hold[] that mandatory package licensing of patents is exempt from the *per se* rule" (Pet. 15).[7] To borrow petitioners' example (Pet. 20), the Federal Circuit's reasoning would protect block-booking by film distributors only if the distributors neither imposed any exhibition requirement (in which case licensees would show "tied" films only if they had no more attractive alternative) nor charged any more for the entire package than licensees were prepared to pay for just the "tying" films. Under those circumstances, the supposed tying could not injure competition, and there would be no reason to prohibit it. Certainly nothing in *Loew's* or *Paramount* would require that it be condemned *per se*.[8]

3. For the same reasons, there is no substance to petitioners' argument that the Federal Circuit has created "a special exception from the established *per se* rule against tying" (Pet. 21-22) in derogation of the general rule, recognized for example in the Department of Justice and Federal Trade Commission's *Antitrust Guidelines for the Licensing*

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[7] *See, e.g.*, Pet. App. 12a (concluding that "broad proposition" condemning all mandatory package licensing is unsupported "as applied to the circumstances of this case"); *id.* at 19a n.4 (recognizing that analysis would change if package price "reflect[ed] any of the cost of [a] tied product," but confirming that "[t]he evidence in this case . . . does not indicate that there is a hidden charge for the so-called nonessential patents"); *see also id.* at 30a-31a (discussing special problems of uncertainty about what patents are or are not essential, and how that analysis changes over time, "in a fast-developing field such as the one at issue in this case").

[8] Petitioners cite selected language from an unpublished district court case in an effort to show that the Federal Circuit's decision has been broadly construed. Pet. 20 n.12 (citing *Globespanvirata, Inc.* v. *Texas Instruments, Inc.*, No. 03-2854, 2006 WL 543155 (D.N.J. Mar., 3, 2006). The court in that case clearly recognized the circumstantial limitations on the Federal Circuit's holding. *See* 2006 WL 543155, at *8 (describing and quoting Federal Circuit's decision); *id.* at *10 ("to the extent that *Philips* was based on facts showing that the licensor had not charged a royalty for the nonessential patents, Plaintiff has not specifically alleged contrary facts"). In any event, possible misapplication of the decision below in some future case might be a ground for review in that case, but not in this one.

of Intellectual Property, that intellectual property is subject to "the same general antitrust principles" as other forms of property (*Guidelines* § 2.1, at 3, *quoted at* Pet. 22). The decision below reflects only the companion point, also embraced by the *Guidelines* (*id.*), that the application of those principles must "take[] into account" that "[i]ntellectual property has important characteristics, such as ease of misappropriation, that distinguish it from many other forms of property." The Federal Circuit properly focused on the two special characteristics of the Philips patent licenses discussed above—no use requirement and no incremental charge—and on the special procompetitive benefits of package licensing of complementary technology. *See* Pet. App. 14a-24a.

As the Federal Circuit pointed out (Pet. App. 22a), the *Guidelines* specifically emphasize that tying arrangements involving intellectual property can result in "significant efficiencies and procompetitive benefits." *Guidelines* § 5.3, at 26. Pool or package licenses "may provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation." *Id.* § 5.5, at 28. By "promoting the dissemination of technology," they "are often procompetitive." *Id.* Accordingly, the enforcement agencies normally assess pool or package licensing programs under the rule of reason. *See id.* § 5.3, at 26-27.

Indeed, the DOJ/FTC *Guidelines* are curious authority for petitioners to invoke. In setting out a "[f]ramework for evaluating licensing restraints," the *Guidelines* follow precedent from this Court that strongly disfavors the use of *per se* rules. *Guidelines* § 3.4, at 16. Thus, "[i]n the vast majority of cases, restraints in intellectual property licensing arrangements are evaluated under the rule of reason." *Id.* Like this Court, the *Guidelines* reserve *per se* treatment for restraints that "facially appear[] to be of a kind that would always or almost always tend to reduce output or increase prices, and . . . [are] not reasonably related to efficiencies." *Id.* at 16-17 (footnote omitted); *compare, e.g., Broadcast Music, Inc.* v. *Columbia Broad. Sys., Inc.*, 441 U.S. 1, 19-20

(1979) (*BMI*). The Federal Circuit followed the same approach in this case. *See* Pet. App. 8a-9a (also quoting *BMI*).

Petitioners get no more help from the Justice Department's business review letters discussing other licensing programs. *See* Pet. 24-27 & n.13. Nothing in those letters is inconsistent with the Federal Circuit's decision. The letters, for example, do not conclude, as petitioners suggest (Pet. 25), that including nonessential patents in a package license "would" harm competition. The letters point out only that including such patents "could in certain cases unreasonably foreclose" the use of competing patents. Pet. 24 (quoting DOJ letter). The Federal Circuit carefully explained why that would not be sufficiently likely in this case to warrant *per se* condemnation (Pet. App. 14a-24a)—as well as why the record could not support the Commission's findings of market foreclosure (*id.* at 25a-31a).[9]

Finally, petitioners accuse Philips of "wield[ing] the power of its patents" to harm competition (Pet. 25), of combining its patents in pools where they "draw strength from each other" and are somehow "insulate[d] . . . from challenges" (*id.*), and of "creating an impenetrable wall of patents" (Pet. 26). They accuse the Federal Circuit of "open[ing] a gaping hole for anticompetitive behavior." Pet. 27. But to support these allegations they offer no more than snippets of commentary and odd analogies involving terrorists and dynamite. Pet. 25-27 & n.14.[10] Petitioners have no

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[9] In any event, DOJ business review letters do not purport to mark the boundaries of permissible licensing practice. They are statements of the present intentions of antitrust enforcement authorities, and describe practices sufficiently conservative to bring a licensing program within an enforcement safe harbor.

[10] Petitioners cite Professors Landes and Posner for the proposition that patent pools and cross-licensing arrangements may "discourage[] challenges to the validity of particular patents." Pet. 25-26 (quoting W. Landes & R. Posner, *The Economic Structure of Intellectual Property Law* 383 (2003)). The cited passage deals with the theory that a competitor that could challenge the licensor's core technology might instead be "bought off" with favorable licensing terms and induced to split the mar-

cogent response to the Federal Circuit's careful demonstration (Pet. App. 14a-24a) that package licenses of the type at issue in this case offer clear procompetitive advantages while posing no evident anticompetitive threat.

4. Petitioners argue (Pet. 28-30) that this case "offers the opportunity to address tying doctrine in an important context" (Pet. App. 28), and would allow the Court to reconsider both "package licensing of intellectual property" and "the basic contours of [the] *per se* rule against tying" (*id.*). For the reasons set out above, the Federal Circuit's decision provides no occasion for such a reconsideration. But even if the Court were inclined to reach out to address the issues petitioners seek to present, this case would not be an appropriate vehicle for review.

First, the Federal Circuit had before it only one of various misuse theories misuse raised by petitioners and embraced by the ALJ. *See* Pet. App. 35a, 39a-40a & nn.3-4. The court of appeals thus remanded the case to the ITC, which must now determine whether "further proceedings . . . [are] necessary with respect to whether Philips' patents are enforceable and, if so, whether Philips is entitled to any relief from the Commission." *Id.* at 35a. Petitioners, Philips, and the ITC's investigative staff have all submitted briefs to the Commission advancing different views about how the Commission should proceed, but to date the Commission has not indicated what it intends to do. Even if the Commission rejects all remaining misuse arguments and enters orders in Philips' favor (as it should), for a further 60 days those or-

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ket. *Economic Structure* 383 ("the result may be to disguise a cartel as a lawful patent monopoly"); *see id.* at 383-384. Whatever the merits of that theory, it has little to do with the tying claim advanced by petitioners and addressed by the ITC and the Federal Circuit. Not surprisingly, Landes and Posner give such tying claims short shrift. *See id.* at 373 ("The theory of these cases was that by denying the buyer the use of the tying product (the patented product or process) unless he agreed to buy a separate product from the seller as well, the seller was trying to 'leverage' or 'extend' his monopoly to the market for that separate product . . . . This reasoning does not make good economic sense.").

ders remain subject to disapproval by the President "for policy reasons." 19 U.S.C. § 1337(j)(2); *see id.* § 1337(d), (f). Thus, frustratingly enough for Philips, despite the Federal Circuit's decision this matter remains interlocutory even before the ITC.

Second, as noted above (n.1) and in the petition (at 12 n.9), there are parallel proceedings pending in the Southern District of New York in which the same misuse (and related antitrust) claims have been raised by the same parties. Further developments in those proceedings could likewise affect the legal or practical posture of this case.

Third, however the remaining proceedings might otherwise unfold below, if this Court were to grant certiorari, petitioners would no doubt seek to have all other proceedings stayed.[11] Thus, even if Philips ultimately prevailed in this Court, on remand in the ITC, before the district court, and on any further appeals, review by this Court could well postpone any possibility of effective relief by as much as a year. There is no reason to countenance that further delay in a proceeding commenced by Philips almost four years ago under a statute that is designed to protect U.S. industry from infringing imports and that expressly calls for "expeditious adjudication" leading to a final decision "at the earliest practicable time." 19 U.S.C. § 1337(b)(1).

The Federal Circuit's decision evaluates the evidence supporting administrative findings on a particular factual record and applies existing law to specific circumstances. The court of appeals reached the correct result, and Philips should be allowed to proceed as expeditiously as possible on remand to seek relief against petitioners' substantial, ongo-

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[11] Petitioners seek delay, not resolution. They have, for example, already sought to have the district court stay the infringement proceedings pending the outcome of the remand proceedings at the ITC. Every month of delay allows petitioners (and others like them) to make and sell infringing discs, with little hope that any ultimate judgment or order against them will provide Philips with effective retrospective relief.

ing importation into the United States of products made in willful disregard of Philips' U.S. patent rights.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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IN THE

Supreme Court of the United States

PRINCO CORPORATION, PRINCO AMERICA CORPORATION, GIGASTORAGE CORPORATION TAIWAN, GIGASTORAGE CORPORATION USA, AND LINBERG ENTERPRISE INC.,

Petitioners,

v.

U.S. PHILIPS CORPORATION,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

REPLY BRIEF FOR PETITIONERS

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CORPORATE DISCLOSURE STATEMENT

All parent corporations and publicly held companies that own 10 percent or more of the stock of the Petitioners are:

Princo America Corporation is a wholly owned subsidiary of Princo Corporation. Gigastorage Corporation USA is a wholly owned subsidiary of Gigastorage Corporation Taiwan.

TABLE OF CONTENTS

Page

CORPORATE DISCLOSURE STATEMENT i

TABLE OF CONTENTS ii

TABLE OF AUTHORITIES iii

REPLY BRIEF FOR PETITIONERS 1

TABLE OF AUTHORITIES

Page(s)

Cases

Broadcast Music, Inc. v. Columbia Broadcasting System, Inc., 441 U.S. 1 (1979) 7

Independent Ink, Inc. v. Illinois Tool Works, Inc., 396 F.3d 1342 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1281 (2006) 3

Jefferson Parish Hospital Dist. No. 2 v. Hyde, 466 U.S. 2 (1984) ..... *passim*

MercExchange, LLC v. eBay, Inc., 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 547 U.S. --- (May 15, 2006) 3

United States v. Loew's, Inc., 371 U.S. 38 (1962) 2, 3

United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948) 2, 6

U.S. Philips Corp. v. Princo Corp., No. 05-1388, 2006 WL 774601 (Fed. Cir. Mar. 27, 2006) 10

Other Authorities

Department of Justice, Business Review Letter (June 26, 1997), http://www.usdoj.gov/atr/public/busreview/215742.pdf 7, 8

Department of Justice, Business Review Letter (Dec. 16, 1998), http://www.usdoj.gov/atr/public/busreview/2121.pdf 8

Department of Justice and Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property (Apr. 6, 1995), http://www.usdoj.gov/atr/public/guidelines/0558.pdf 7

Philips' Submission Regarding the Limited Scope of the Remand and the Status of the Case, *U.S. Philips Corp. v. Princo Corp.* (S.D.N.Y.) (Nos. 02-CV-246, 04-CV-2825) 10

REPLY BRIEF FOR PETITIONERS

Respondent Philips argues that the decision below was an intensely factual determination that turned on specific characteristics of its mandatory package licenses, and therefore review would be inappropriate. To the contrary, the decision below turned on one basic fact: patents were the items being tied together. The Federal Circuit affirmed that Philips had market power in the relevant market and tied patents together in its mandatory package licenses, but the court refused to find misuse under the *per se* rule against tying because it created an exception for patent-to-patent tying. This Court should grant review to consider whether patent-to-patent tying in package licenses should receive more forgiving treatment than all other tying arrangements.

Philips contends that the decision below turned on two special characteristics of its mandatory package licenses: no requirement to use the licensed patents and a fixed royalty that was independent of which patents were used. However, these are standard characteristics of any ordinary package license. By definition, a license is just permission to use something. An ordinary package patent license allows the licensee to use the patents for a fixed royalty which is independent of which patents are used. Thus, Philips's argument that the decision below turned on these "special" characteristics reinforces that it really turned on the basic fact that patents were tied together in package licenses, and it created a broad exception to the *per se* rule for this practice.

Second, to justify the Federal Circuit's departure from the *per se* rule, Philips claims that there were special procompetitive effects of its mandatory package licenses, and that its licenses did not pose an anticompetitive threat. Philips points to, *e.g.*, the interoperability of the standardized CD-Rs and CD-RWs manufactured, promotion of the technology, and alleviation of uncertainty for manufacturers regarding which patents to license as procompetitive effects.

However, they were not the result of Philips's *mandating* that licensees take all the patents in a package license, or no license at all. They similarly could have been achieved by licensing the patents individually *and* in a package. The safeguard of individual licensing is all that is needed to avoid the *per se* rule, since this avoids coercion to take the entire package. Thus, any benefits of package licensing cannot justify departure from the *per se* rule, since they can be achieved simply by offering package licenses as an option. Philips could have achieved the alleged benefits of its package licenses without implicating the *per se* rule, but its *mandatory* package licenses presented the well-established anticompetitive effects of coercive tying arrangements.

Third, Philips protests that the decision below is "interlocutory" and that "[r]eview would only further delay Philips' efforts to seek relief." Opp. 7. These are not credible bases to oppose review. The decision below was a final decision on whether the *per se* rule against tying applies, which is the issue presented for review. The Commission will no longer consider whether Philips's licenses violate this rule. While Philips points to a parallel district court action, both the Federal Circuit and Philips have acknowledged that the decision below binds the district court. Philips's protest that review could delay final resolution of this case is a just a stock argument available in nearly every case. It is no reason to ignore a circuit court's departure from this Court's established rule, or the exceptional importance of the issue presented.

1. The Federal Circuit created a special exception from the *per se* rule to shield patent-to-patent tying in package licenses, and instead applied more forgiving treatment. The court refused to apply the "flat holding" applied in *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 156-59 (1948), and *United States v. Loew's, Inc.*, 371 U.S. 38, 44-52 (1962), that "'a refusal to license one or more copyrights

unless another copyright is accepted' is 'illegal.'" 371 U.S. at 50. Philips concedes that the court distinguished these cases because its licenses did not require use of the licensed patents and because the royalty was independent of which patents were used. Opp. 5. Philips argues that these are "specific characteristics" of its licenses and, "Because the decision below turns on the presence of these characteristics, it does not 'hold[] that mandatory package licensing of patents is exempt from the *per se* rule.'" Opp. 12-13.

The decision below was a broad legal determination that mandatory package licensing of patents is exempt from the *per se* rule, not a fact-bound determination based on unique characteristics of Philips's licenses. Since a license is by definition permission to use something, it is a standard aspect of a patent license that a licensee is permitted (but not required) to use the patents, just as it is a standard aspect of a driver's license that the driver is permitted (but not required) to use a car. In addition, consistent with the typical way almost any package is sold, the simplest, most common package license has a fixed royalty. "[T]he two special characteristics of the Philips patent licenses discussed above—no use requirement and no incremental charge," (Opp. 14)—are in truth standard characteristics of any ordinary package license of patents.

The Federal Circuit's decision did not turn on any unique aspects of Philips's licenses, but rather on the basic fact that package licenses of patents were at issue. In this case, the Federal Circuit once again applied special treatment, inconsistent with a general rule applicable in all other contexts, based on the mere fact that patents were involved. *See MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1338-39 (Fed. Cir. 2005) (failing to apply the traditional test for injunctive relief), *vacated*, 547 U.S. --- (May 15, 2006); *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342 (Fed. Cir. 2005) (presuming market power from the existence of a patent), *vacated*, 126 S. Ct. 1281 (2006).

Philips argues that the Federal Circuit faithfully applied the *per se* rule in an alternative holding (after rejecting the propriety of doing so), but the court actually applied more forgiving treatment, consistent with its view that the licenses did not constitute patent misuse *per se*. The court did not, as Philips contends (Opp. 7-9), properly apply the requirement of "two distinguishable product markets." *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2, 21 (1984).[1]

This Court's test for whether a tying arrangement involves two separate items is whether *but for the tying arrangement* those items could be demanded separately. *See id.* at 21-23. Here, the tying (essential) patents and tied (non-essential) patents could have been demanded separately but for the tie. Manufacturers could have licensed essential patents from Philips and unquestionably could have licensed alternative technology to Philips's non-essential patents which the court found supported by the evidence. App. 28a. Consequently, this Court's test for separability was met. *See* 466 U.S. at 22 ("Unquestionably, the anesthesiological component of the package offered by the hospital could be provided separately and could be selected either by the individual patient or by one of the patient's doctors if the hospital did not insist on including anesthesiological services in the package it offers to its customers.").

The Federal Circuit did not apply this Court's "but for" test; instead, it looked to what happened while the tying arrangement was in effect. App. 28a-29a. Of course, an

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[1] Besides endorsing the Federal Circuit's analysis, Philips argues that essential and non-essential patents cannot be separate items because they are "inputs used in the manufacture of a single consumer product." Opp. 10. This Court rejected the hospital's analogous argument that its "functionally integrated package" could not be an unlawful tying arrangement, 466 U.S. at 18-19, noting it has "often found arrangements involving functionally linked products at least one of which is useless without the other to be prohibited tying devices." *Id.* at 21 n.30.

unlawful tying arrangement forecloses competition from alternatives to the tied product, so persons subject to the tie are unlikely to be familiar with such alternatives. *See* 466 U.S. at 23 ("Obviously, the surgeons who practice at East Jefferson Hospital do not gain familiarity with any anesthesiologists other than Roux and Associates."). Nevertheless, the court demanded evidence that a licensee approached Philips about using an alternative while its mandatory package licenses were in effect. App. 28a. Thus, the court made up its own requirement, in conflict with *Jefferson Parish*, to treat patent-to-patent tying leniently.

The Federal Circuit's test perversely rewards a tying arrangement that successfully forecloses competition. A tie that successfully forecloses competition from alternative technologies will make it less likely that any licensee will be familiar with alternative technologies. Furthermore, it would have been pointless for a licensee to approach Philips about using alternative technology since, as Philips emphasizes, the royalty remained the same "regardless of how many of the patents were used." App. 3a. The law does not require doing vain things, and the court's inserting such a requirement into the *per se* rule against tying is untenable.

2. The Federal Circuit's departure from the *per se* rule is not justified by any "special procompetitive benefits," (Opp. 14), or lack of anticompetitive threat, from Philips's mandatory package licenses. To the extent there have been any benefits from the licenses, they could have been achieved by offering the patents in a package *and* individually. Thus, licensees desiring all the patents could license the package, while others desiring fewer patents (perhaps because they were interested in using or developing alternative technologies) would not be forced to license the entire package. The *per se* rule against tying only forbids mandating purchase of the tying and tied items as a package, not simply offering them in a package. *See Jefferson Parish*,

466 U.S. at 11-12. Consequently, Philips could have avoided the *per se* rule without sacrificing the alleged benefits of its package licenses by offering the patents in a package and individually, but its use of *mandatory* package licenses implicates the *per se* rule and poses precisely the anticompetitive threat associated with unlawful tying arrangements – foreclosure of competition.

Philips's description of the alleged procompetitive effects of its licenses betray that these effects were due to *offering* package licenses, not mandating acceptance of them. Philips states, "They *offered* all interested manufacturers non-exclusive access to the standards [for CD-Rs and CD-RWs], along with worldwide licenses to the patents needed to implement them," and that this, *e.g.*, "secured the benefits of compatibility and interoperability" and "promote[d] rapid and widespread adoption of the standards." Opp. 1-2 (emphasis added). These effects were most likely attributable to the standard itself, not Philips's licenses. App. 104a-105a, 195a. Even if they could be attributed to licenses, they similarly would have been achieved if Philips had licensed the patents in a package and individually, instead of mandating acceptance of the package.[2]

In addition, Philips claims that it alleviated uncertainty about which patents a manufacturer might need because it "secured the right to license relevant patents held by the other developers of the technology, and *offered* manufacturers single licenses that assured them of the right to use any necessary patents held by the licensors." Opp. 2 (emphasis added). However, this does not justify collusion by developers to pool their patent rights and insist that

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[2] Philips also asserts that its licenses "simplify the licensing process (including its own costs of negotiation, monitoring, and enforcement)," (Opp. 2), but "the policy of the anti-trust laws is not qualified or conditioned by the convenience of those whose conduct is regulated." *Paramount*, 334 U.S. at 159.

licensees take the entire package. It would make a farce of antitrust and patent misuse law, which protect the freedom to chose among competing alternatives, to credit paternalistic rationalizations by conspirators that they have pre-selected the best choice to protect those who are forced to accept it.

This Court and the DOJ have relied on the safeguard of individual licensing in approving package licenses. *See Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 U.S. 1, 24 (1979) (In view of the consent decree, "[t]he District Court found that there was no ... impediment to CBS's obtaining individual licenses; CBS, in short, had a real choice."); DOJ, Business Review Letter at 11 (June 26, 1997), http://www.usdoj.gov/atr/public/busreview/215742.pdf ("the independent availability of each Portfolio patent is a valuable failsafe") (hereinafter MPEG Ltr.).[3] The Federal Circuit erred in dismissing this safeguard by assuming that there is no distinction between maximizing the return on a tying item and using power over a tying item to restrain competition in the market for the tied item. App. 19a-21a. This Court has drawn precisely this distinction. *See Jefferson Parish*, 466 U.S. at 14.

Patent-to-patent tying in mandatory package licensing, as in Philips's licenses, poses precisely the anticompetitive threat of "harm[ing] existing competitors or creat[ing] barriers to entry of new competitors in the market for the tied product," which motivated this Court's adherence to the *per*

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[3] While Philips contends that Petitioners' reliance on DOJ materials is misplaced because the DOJ and FTC generally apply the rule of reason in their internal analyses, this merely reflects "the exercise of their prosecutorial discretion." DOJ and FTC, Antitrust Guidelines for the Licensing of Intellectual Property at 26 (Apr. 6, 1995), http://www.usdoj.gov/atr/public/guidelines/0558.pdf. The Agencies must weigh anticompetitive effects to prioritize their actions, but this does not mean that they will not enforce the *per se* rule against tying in an enforcement action, as noted in the Guidelines. *See id.* at 26 n.36.